

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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September 28, 2010

Mr. Jon Clark  
Executive Director  
Butte County Association of Governments  
2580 Sierra Sunrise Terrace, Suite 100  
Chico, CA 95928-8441

Re: Butte County Association of Governments  
Audit of Indirect Cost Allocation Plan for fiscal year 2010/11  
File No: P1591-0070

Dear Mr. Clark:

We have audited the Butte County Association of Governments' (BCAG) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2011, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 and the Department of Transportation's (Department) Local Programs and Procedures (LPP) 04-10. BCAG management is responsible for the fair presentation of the ICAP. BCAG proposed an indirect cost rate of 59.76 percent of total direct salaries and wages plus fringe benefits.

Our review was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of BCAG. Therefore, we did not audit and are not expressing an opinion on BCAG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by BCAG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices described in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of BCAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of BCAG's Overall Work Program (OWP) for FY 2010/11, a review of BCAG's single audit report for FY ended June 30, 2009, inquiries of BCAG personnel and reliance placed on the single audit report for the FY ended June 30, 2009, and prior audit field work performed by the Department in September 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Julie Quinn, BCAG Chief Fiscal Officer, on August 26, 2010. Our finding and recommendation take into consideration BCAG's response to our draft finding dated August 27, 2010. Our finding and recommendation, a summary of BCAG's response and our analysis of the response are detailed below.

## **AUDIT RESULTS**

Based on audit work performed, BCAG's ICAP for the FY ended June 30, 2011, is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 59.76 percent of total direct salaries and wages, plus fringe benefits for the FY ended June 30, 2011. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

BCAG requested a provisional rate of 59.76 percent on June 10, 2010, for FY 2010/11. Audits and Investigations approved the provisional rate on July 13, 2010. Since the provisional rate and the approved rate are the same, no adjustment to previously reimbursed claims is necessary.

### **Audit Finding**

#### **Finding 1**

The rate used to allocate indirect costs to direct work elements in the FY 2010/11 OWP does not agree with the FY 2010/11 indirect cost rate BCAG submitted for approval. The carry forward and depreciation are not included in OWP indirect cost rate calculation. Not allocating the appropriate indirect cost rate to direct work elements in the OWP inflates the

amount of Federal or State funding required by BCAG to accomplish its planning functions and limits the amount of funding available for other allowable activities.

**Recommendation**

BCAG ensure that the ICAP rate used in their OWP is the same as their proposed ICAP rate submitted for approval.

**BCAG's Response**

BCAG will revise its OWP to include indirect costs at the same rate as is used in the ICAP.

**Analysis of Response**

The finding will stand as stated.

This report is intended solely for the information of BCAG, Department Management, the California Transportation Commission, and the Federal Highway Administration (FHWA). However, this report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 3, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Jimmy Motta, Auditor, at (916) 323-7413 or Nancy Shaul, Audit Supervisor, at (916) 323-7940.

**ORIGINAL SIGNED BY:**

MARYANN CAMPBELL-SMITH  
Chief, External Audits – Local Governments

Attachment

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration  
Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration  
James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass  
Transportation, California Department of Transportation  
David Saia, LAPM/LAPG Coordinator, Division of Local Assistance, California  
Department of Transportation  
Jenny N. Tran, Associate Accounting Analyst, Local Program Accounting Branch,  
Division of Accounting, California Department of Transportation  
Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning,  
Division of Transportation Planning, California Department of Transportation  
John Hoole, DLAE, Office of Local Assistance, Division of Planning and Local  
Assistance, District 3, California Department of Transportation  
Jennifer Duran, Sutter County Region/IGR Coordinator & Glenn County Regional  
Coordinator, Division of Planning and Local Assistance, District 3, California  
Department of Transportation  
P1591-0070

## **Butte County Association of Governments (BCAG) Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Butte County Association of Governments and approved by Caltrans.

### **SECTION I: Rates**

<b>Rate Type</b>	<b>Effective Period</b>	<b>Rate*</b>	<b>Applicable To</b>
Fixed with carry forward	7/1/10 to 6/30/11	59.76%	All Programs

\*Base: Total Direct Salaries and Wages plus fringe benefits

### **SECTION II: General Provisions**

#### **A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, and then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

#### **B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs that affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

#### **C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited

financial statements any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Rate Calculation**

**CAP Certification Letter, G: Calculation of Rate:**

FY 10/11 Budgeted Indirect Costs	\$ 689,954	<See indirect cost calculation detail page 5>
Carry Forward From FY 2008-09	<u>\$ (33,551)</u>	<Carryforward Calculation page 4>
Adjusted Indirect Costs for FY 2010/11	\$ 656,403	
FY 2010/11 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 1,098,438	<See indirect cost calculation detail page 5>
FY 2010/11 Indirect Cost Rate	59.76%	

## CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2010/11 (July 1, 2010 to June 30, 2011) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated, as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Butte County Association of Governments

Reviewed, Approved and Submitted by:

Name of Official: Jon Clark

**ORIGINAL SIGNED BY:**

Signature: \_\_\_\_\_

Title: Executive Director

Date of Execution: June 10, 2010

Prepared by:

Name of Official: Julie Quinn

**ORIGINAL SIGNED BY:**

Signature: \_\_\_\_\_

Title: Chief Fiscal Officer

Phone: (530) 879-2468

## INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

**ORIGINAL SIGNED BY:**

Signature: \_\_\_\_\_

Reviewed and Approved by:

(Name of Audit Manager)

Title: AUDIT MANAGER

Date: 9-28-10

Phone Number: 916-323-7940

**ORIGINAL SIGNED BY:**

Signature: \_\_\_\_\_

Reviewed and Approved by:

(Name of auditor) James Motta

Title: Auditor

Date: 9/28/10

Phone Number: